IN THE

United States Circuit Court of Appeals

FOR THE SECOND CIRCUIT.

NATIONAL PHONOGRAPH COMPANY,
Plaintiff in Error,

vs.

NEW YORK PHONOGRAPH COMPANY,
Defendant in Error.

Writ of Error to Review the Decree of the Circuit Court Adjudging Defendant Guilty of Contempt.

REPLY BRIEF FOR PLAINTIFF IN ERROR.

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INDEX.

POINT I.

PAGE

The defendant in error in its brief does not meet our assignments of error 1

POINT II.

The complainant is attempting to reopen a question which was settled by the decree 4

POINT III.

We do not propose to be led into any discussion of what has been asserted in other litigations as to the meaning of the words "Phonographs and Supplies" 7

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Reply Brief for Plaintiff in Error.

POINT I.

The defendant in error in its brief does not meet our assignments of error.

The brief does not dispute that the nine foreign patents had expired or that as to these patents the plaintiff's license had expired.

The brief does not argue that we have used the invention of Patent No. 713,209 since the injunction was ordered, or that the claims 2 and 3 cover the dipping process of Miller & Aylsworth.

The argument is that Judge HAZEL'S decision was wholly wrong and that he should have decided that we had violated the injunction by selling phonographs and appliances within the licensed territory, even though they contained none of Edison's inventions or no patented inventions of any kind. If that argument is sound, it cannot sanction the order under review.

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We have been fined because we have used certain patented inventions in violation of the exclusive rights of the complainant. The fine is imposed partly to compensate the complainant and partly to punish the defendant for this particular and specified transgression. If the Court below had found that we had not committed this wrong, but had committed a different one, it does not follow that the same fine would have been imposed.

What punishment would have been imposed if the Court had found that the complainant's license did not give it an interest in any invention of Edison? Or, if the Court had found that the North American Company had covenanted not to sell any phonographs of any kind for use in the State of New York?

Not only is it impossible to deduce that the Court, if it had so held, would have imposed the same fine; but it is very reasonable to suppose that only a nominal fine would have been imposed.

I.

The major part of the fine was imposed as indemnity to the complainant, in view of the "tremendously voluminous" record and briefs upon the trial and upon the motion.

If, as defendant in error now asserts, the action was merely one to restrain the defendant from violating a contract, giving the complainant the exclusive right to sell phonographs of every kind in the State of New York, this voluminous record would never have been made up.

A bill of complaint could have been framed not containing more than twenty folios, besides a profert of the license agreement. It would have alleged (1) the execution of the contract of license, (2) the renewal of the license to the North American Company, (3) facts showing some duty or obligation by the defendant to observe the contract of the North American Company with the complainant, and (4) the selling of phono-

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graphs by the defendant within the State of New York.

Instead of such a bill we find the voluminous one, filled with forms which are only appropriate in a suit to restrain infringement of patents (See particularly paragraphs 1, 2, 5, 6, 10, 11; Original record, C. C. A., Vol. 1, pp. 2–14).

The defendant had to meet the issues thus tendered, and so the voluminous record was accumulated.

Moreover, when Judge HAZEL's decision had been affirmed by the Circuit Court of Appeals, and the action had been judicially characterized as an infringement suit, it became necessary for the National Phonograph Company, in its answer to the petition for attachment, to present every patent under which that company had or might have worked from the time that the injunction had become effective, so that it might be seen how many of them had expired, or how many had not been used, or how many there were to which complainant's licenses could by no possibility apply.

The specifications and drawings of the one hundred and forty-two such patents which had been acquired from Edison and other inventors, and of seven foreign patents (which were presented to show that, at the time of the injunction, nine of the Edison patents had expired by reason of shorter-term foreign patents), occupy nearly 700 of the 1187 pages of the record in the attachment proceedings (Transcript of Record, pp. 503–1187); while our answering affidavits, which cover 206 printed pages (Transcript, Vol. 1, pp. 158–364), are almost wholly addressed to discussions of these patents and of those mechanical changes which were made in dissociating from our manufactures the inventions of patents which we had assumed might be subject to complainant's rights.

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II.

If the Court had not found that the exclusive right of the license was confined to phonographs containing Edison's inventions, then it would have had to find that the defendant, by selling phonographs in licensed territory, had only done what any other manufacturer or vender in the world could have done without liability or without legal injury to the complainant.

The only benefit the complainant could derive from such a contract would be to use it as a club to prevent the defendant from doing what anybody and everybody else could do who chose.

What ascertainable loss would the complainant have sustained by the breach of such a contract, and upon what principles would the Court have measured its indemnity for a violation of the injunction? What punishment would the Court have deemed adequate if the defendant had only done that which anybody else was at liberty to do?

The Court would have probably said that a situation had arisen which neither party contemplated at the time of the contract, and it would be inequitable to punish the defendant for a breach which was *damnum absque injuria.*

POINT II.

The complainant is attempting to reopen a question which was settled by the decree.

When the original decree was entered, the complainant sought to obtain one which would enjoin the defendant from selling phonographs of any kind. It submitted a form of decree that would have effected that purpose. Judge HAZEL refused to order such a

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decree, but made one that left the defendant free to sell phonographs not containing any of Edison's inventions. This he did by inserting the recitals about the contracts.

(See Buckingham's affidavit, and the form of decree proposed by complainant and by the defendant; Record, pages 327–332).

The recitals of the decree show that it was for the infringement of patent rights acquired by the complainant and derived under the four contracts enumerated. It declares that the defendant "has trespassed and infringed upon" the rights of the complainant by selling phonographs in violation of the rights of the complainant under the enumerated contracts. It orders an accounting of the profits which have accrued to the defendant "by reason of its said trespass, infringement and wrongful invasion." It is plain that the suit was a patent suit, and the decree was for an infringement of patent rights. It is true there was no issue respecting the scope, validity or infringement of any of our patents. This was because the complainant's license extended to every invention made or to be made by Edison relating to the phonograph, and if defendant sold in the complainant's territory a single phonograph containing any invention of Edison, it infringed the complainant's exclusive rights.

Being a suit for infringing patent rights, the decree never contemplated an injunction or an accounting in respect to phonographs not containing any of Edison's inventions.

If it had not been a patent suit, the complainant would have had no remedy against the defendant. The defendant never became obligated to perform any contract of the North American Company.

This is very clearly shown in the opinion of the Appellate Division, in the Davega case. But because the license of the North American Company to the complainant carved out of the Edison patent a part of the patent estate, no one, by purchasing the Edison patents and the assets of the North American

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Company, could override the rights of the complainant.

The complainant understood that the original decree protected it only as to phonographs containing Edison inventions.

When it found that the decree, as entered, gave it no broader relief, it immediately began suits in the State Courts upon the covenant in the license for the purpose of getting the relief which had been denied in the present suit. The Davega suit was one of these suits, and the complainant got a decree from Mr. Justice KEOGH as broad as it desired. However, the Appellate Division unanimously reversed Mr. Justice KEOGH, holding that the only action which could be maintained against the defendant, based on the license agreement, was a patent suit of which the State Courts had no jurisdiction (111 N. Y. Supp., 363 ; Compendium, p. 66).

Judge HAZEL did not misinterpret the original decree, when, in his opinion on the motion for an attachment, he used this language :

> "Properly interpreted, the decision of the Court must be deemed to hold that the complainant did not buy the right to sell, use or let phonographs and appliances separate and distinct from the patents under which they were manufactured. The language of the bill apparently supports this view" (Rec., fol. 3647).

In a preceding statement of the same opinion, Judge HAZEL, also said (Record, fol. 3646) :

> " This court in its former decision held that a license to manufacture and sell a patented article could not be extended beyond the life of the patent and by the term 'in perpetuity,' the parties could not have intended, in the absence of express limitation, to prolong such license rights for a period beyond the life of any improvement or patented invention."

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These citations amply show what Judge HAZEL understood his original decision (136 F. R., 612-614) to mean, and why he refused to accept complainant's form of decree and why he adopted the decree as it now stands.

Complainants say that the words "in violation of," &c., of the decree, were intended as words of description and not at all as words of limitation (Brief of Defendant in Error, p. 13); but this was not Judge HAZEL's understanding.

Obviously Judge HAZEL's settlement of the decree on May 2, 1905 (Compendium, p. 1), and its affirmance by the Circuit Court of Appeals (144 F. R., 404), amounted to a final disposition of the contention that complainant's rights related to all phonographs, or to phonographs that were separate and distinct from patents under which they were manufactured.

POINT III.

We do not propose to be led into any discussion of what has been asserted in other litigations as to the meaning of the words "Phonographs and Supplies."

The proceedings arising out of the suspension agreement presented entirely different issues. By that agreement the North American Company undertook to pay the New York Phonograph Company ten per cent. of the price of all phonographs and appliances sold by it in the territory of the New York Phonograph Company (Record, page 431). Of course, no question of patent rights arose in these litigations. The brief for the defendant in error contains an extract from the argument of one of the counsel for the defendant when the cause was in the Circuit Court of Appeals,

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to the effect that the suit was not a patent suit. This seems to have been a statement of the contention for the complainant. It is only necessary to refer to the other portions of the brief to show that it was the contention of the defendant that the suit was a patent suit.

We do not deem it necessary to further notice the statements contained in the brief for the defendant in error.

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